

b. No deduction shall be taken under subdivision (d)(7) of this Section (relating to personal exemption).

c. Gains from the sale or exchange of property shall be excluded to the extent that such gains are allocated to corpus and are not (I) paid, credited, or required to be distributed to any beneficiary during the taxable year, or (II) paid, permanently set aside, or to be used for the purposes specified in subdivision (d)(4) of this Section.

“Losses from the sale or exchange of property shall be excluded except to the extent such losses are taken into account in determining the amount of gains from the sale or exchange of property which are paid, credited or required to be distributed to any beneficiary during the taxable year.

d. For purposes only of trusts described in subdivision (d)(5) of this Section which are required to distribute current income only, there shall be excluded those items of gross income constituting extraordinary dividends or taxable stock dividends which the fiduciary, acting in good faith, does not pay or credit to any beneficiary by reason of his determination that such dividends are allocable to corpus under the terms of the governing instrument and applicable State law.

e. There shall be included any tax-exempt interest to which G. S. 105-141(b)(4) applies, reduced by any amounts which would be deductible in respect of disbursement allocated to such interest but for the provisions of G. S. 105-147(5).

“If the estate or trust is allowed a deduction under subdivision (d)(4) of this Section, the amount of the modifications specified in subdivision (c)(1)e. above shall be reduced to the extent that the amount of income which is paid, permanently set aside, or to be used for the purposes specified in subdivision (d)(4) of this Section is deemed to consist of items specified in subdivision (c)(1)e. For this purpose, such amount shall (in the absence of specific provisions in the governing instrument) be deemed to consist of the same proportion of each class of items of income of the estate or trust as the total of each class bears to the total of all classes.

“(2) Income. The term ‘income’, when not preceded by the words ‘taxable’, ‘distributable net’, ‘undistributed net’, or ‘gross’, means the amount of income of the estate or trust for the taxable year determined under the terms of the governing instrument and applicable State law. Items of gross income constituting extraordinary dividends or taxable stock dividends which the fiduciary, acting in good faith, determines to be allocable to corpus under the terms of the governing instrument and applicable State law shall not be considered income.

“(3) Taxable Income. The term ‘taxable income’ means the gross income as defined in G. S. 105-141 less the deductions and exemptions allowed by this Section.

“(4) Beneficiary. Any heir, legatee, devisee, and any other person, firm or corporation who acquires under any governing instrument the right to receive income from any estate or trust.

“(d) Deductions. (1) Allowable Deductions. Except as otherwise provided in this Section, the same deductions allowed individuals under G. S. 105-147 shall be allowed in computing the net income of an estate or trust.